

VZCZCXYZ0000
OO RUEHWEB

DE RUEHQT #0793/01 0942031
ZNR UUUUU ZZH
O 042031Z APR 07
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6726
INFO RUEHBO/AMEMBASSY BOGOTA PRIORITY 6570
RUEHCV/AMEMBASSY CARACAS PRIORITY 2486
RUEHLP/AMEMBASSY LA PAZ APR 0529
RUEHPE/AMEMBASSY LIMA PRIORITY 1553
RUEHBR/AMEMBASSY BRASILIA PRIORITY 3733
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 2141
RUEHSO/AMCONSUL SAO PAULO PRIORITY 0188
RUEHRI/AMCONSUL RIO DE JANEIRO PRIORITY 0040
RHMFIUU/DEPT OF ENERGY WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY

UNCLAS QUITO 000793

SIPDIS

SENSITIVE
SIPDIS

DEPT FOR WHA/EPSC FAITH CORNEILLE
TREASURY FOR SGOOCH

E.O. 12958: N/A
TAGS: [ECON](#) [EPET](#) [EFIN](#) [PREL](#) [EC](#)
SUBJECT: LONG PETROBRAS SHUTDOWN ENDS

REF: Quito 394

11. (SBU) Summary: Operations in Brazilian petroleum firm Petrobras's Block 18 had been suspended due to community protests for over three weeks. Each day without production cost Petrobras close to 40 thousand barrels of oil (about 16% of Ecuador's private sector production) and roughly half a million dollars in revenue (with the Government of Ecuador (GOE) losing the same or more). State firm Petroecuador declared force majeure on March 30 since it was unable to meet delivery contracts. The GOE helped broker a solution and the blockade was lifted the same day, just 4 days before Correa's visit to Brazil. The shutdown was unusual in that it went on longer and yielded less to community demands than usual. End Summary.

UNREASONABLE DEMANDS?

12. (SBU) Community residents shut down operations in Block 18 on March 7, claiming that Petrobras will start a new phase of operations and must therefore compensate the community for the pending drilling and environmental damage. Petrobras representative Fernando Enmanuel claimed the new phase is still awaiting GOE approval, and even if it is approved, would not begin until 2008. He also noted that Petrobras is a good community partner and has complied with all of its required social responsibility programs to date. Enmanuel reports residents demanded Petrobras pave 120 kilometers of road in the area, and give 100 percent salary increases to community Petrobras employees. Compliance would have been impossible, he said - the road alone would cost between USD 60 and 80 million. (Note: Similar community demands are common. Last year, community residents shut down Petrobras operations, demanding that it hire more resident contractors and provide equipment and transportation. In the last major shutdown, Andes Petroleum, a Chinese company, gave in to almost all demands, setting an example for future community protests. Other private petroleum companies reported numerous suspensions in operations last year due to community demands for additional benefits.)

GOVERNMENT REPRIMANDS, NEGOTIATES...

13. (SBU) President Correa made a statement to the press on March 23 that Ecuador was losing half a million dollars a day from the Petrobras shutdown; that a number of these anarchic situations

existed, and that "the anarchy" must be stopped and authority respected. He reprimanded regional prefects and mayors who seize oil wells and organize invasions, which he said the government would

not allow. Enmanuel reports that total GOE losses from the shutdown were even higher than the President stated publicly, close to USD 1.2 million per day and likely a strong influence on the President's desire for a solution. Later that day, following attempts by the Energy Ministry to help reach a compromise between Petrobras and the community, Energy Minister Acosta made a statement to the press that the situation was being resolved and operations would restart "in a few hours."

...LARGELY UNSUCCESSFULLY

¶4. (SBU) However, the President's comments did not translate to quick resolution, and Acosta's statement was premature. The agreement with the community fell apart and suspension of operations continued for another week. On March 30, Petroecuador declared "force majeure" on crude petroleum exports and said it was delaying contractually required shipments due to decreased production, citing the Block 18 shutdown, as well as increased volcanic activity in the oil-producing region and low stocks in Ecuador's refineries. (Note: Petroecuador has had problems meeting export contract requirements since January because of declining production across the entire sector, so while the Block 18 shutdown exacerbated the problem it was not the sole cause of it.)

¶5. Late in the day on March 30, Petrobras and the GOE came to a negotiated agreement with the community, but the final accord did not give in to all community demands. Recently, Energy Ministry representatives have told us that the administration wants to increase government involvement in community issues in the oil-producing Oriente. In keeping with this, although residents demanded Petrobras build a new road, the GOE decided this activity was strictly a government responsibility. The GOE reportedly agreed to repair nearby roads but did not consent to build a new one. Similarly, Petrobras agreed to increase salaries but not as high as initially requested.

COMMENT:

¶6. (SBU) This was the first time that Petrobras has held out through such a long community-provoked shutdown. Petrobras management believed they had President Correa's backing and were trying to negotiate an agreement that would protect them from additional community demands in the future, so were willing to weather a period of zero production. For its part, the GOE was motivated by a desire to restore production and settle the problem before President Correa's April 3 visit to Brazil (where he is expected to sign a number of cooperation agreements including on energy), and therefore appeared willing to invest more of its political and financial capital to bring about a settlement than have previous governments when confronted with similar stoppages. Although the GOE was able to finally come to a consensus with stakeholders, numerous disputes with activists and community members in the energy sector occur frequently in Ecuador, and several remain outstanding. In addition, the GOE has yet to demonstrate how it will deal with foreign oil companies on a broader basis. Its rhetoric suggests it wants private oil companies to share even more revenue or production with the government, but it has not made any firm proposals to the oil companies, which remain in limbo (reftel).

JEWELL